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Gil Gutknecht: Market will improve, but new laws are needed

Gil Gutknecht

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Let me start with a disclaimer. I am not an investment adviser or analyst. Despite all of their puffery, most of them have underperformed the S&P 500 over the last 10 years. I did buy my first shares when I was 16, though, and have had a keen interest in the stock market ever since.

Permit me to share some of the things I have learned. Some of these lessons came at considerable expense.

First, sometimes markets are moved more by emotions than by numbers. Financial reports are very important. Well-managed companies will outperform the poorly managed. But greed and fear are both trump cards.

This leads to lesson No. 2. Markets almost always overreact. As a shareholder, I will tell you that Lucent was way overpriced at \$65. It is underpriced at \$2. Many companies are in the same soup.

Third, America is not going out of business. The business cycle can't be completely repealed. But optimists always prevail over the pessimists in the long run.

The financial scandals reverberating from Wall Street to Main Street are real. Financial chicanery has cost billions, much of it coming from retirement and college funds. I, like most Americans, am outraged.

The sight of some CEOs in handcuffs and orange jumpsuits would send a powerful message. Congressional hearings also help. Corporate wrongdoers sweating under the spotlights of oversight hearings serve to shame abusers and send warnings to others.

Congress is passing several new provisions that will strengthen corporate governance. First, we need to create a public regulatory board to oversee auditors. Severing auditing and consulting services is a step in the right direction.

Second, we must require prompt financial disclosures, including details of insider and affiliate transactions. Real-time disclosure will alert shareholders to possible concerns over company performance.

In fact, real-time disclosure of customer traffic counts, sales, expenses, inventory -- the raw data diagnosing business health -- would put investors (company owners) on the same playing field as the company's CEOs. True transparency would remove the fog of generally accepted accounting principles.

Finally, additional tools for prosecutors and increased penalties for breaking the law must be applied. Larceny is larceny. Wearing a three-piece suit should not get you a lighter sentence for breaking the law.

The SEC and the Justice Department must vigorously enforce both existing and these new regulations. Fraud and Ponzi schemes have been illegal for decades. Nothing will breed cynicism worse than stories of some of these birds paying a fine and then jetting off to their villas in Aspen. Some should forfeit their ill-gotten gains.

Shareholders, both individually and collectively through pension funds, must also demand accountability from the corporations they own. They should demand more transparency and greater access to the books. Using their power to vote their shares they can clamp down on some of the exorbitant pay packages. Even if a great CEO is worth his weight in gold (at \$400 an ounce, about \$1.28 million), no board can justify some of the bonuses that have come to be expected in modern America.

My mother used to say, "This too shall pass." We will get past these scandals. With all the problems we have, the United States is still the greatest nation on the planet. America is still the best place in which to invest. Don't sell it short.

-- Gil Gutknecht, a Republican, is a U.S. representative from Minnesota's First District.



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